FETAKGOMO LOCAL MUNICIPALITY

Annual financial statements for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Service Delivery
Members of the Council	Councillors and Traditional Leaders Sefala RE (Mayor) Mamphekgo KK (Speaker) Phala TN (Chief Whip) Lentsoane SA (EXCO Member of Development Planning Maisela PR (EXCO Member of Technical Services) Phaladi RC (EXCO Member of Budget & Treasury) Seroka KA (EXCO Member of Corporate & Community Services) Diphofa KD (Chairperson of Technical Services Portfolio Committee) Kupa MT (Chairperson of Budget & Treasury Portfolio Committee) Phala MD (Chairperson of Development Planning Portfolio Committee) Mashabela MN (Chairperson of Community Services Portfolio Committee) Mathipa MH (Chairperson of Remuneration Committee) Marote ET (Chairperson of Chairperson) Mabotha MC (Chairperson of Rules and Ethics Committee) Moifo HK Manala ER Moswane MW Mawela TV Maesela MG Maboa S Makola MM Lesufi MJ Phasa MJ Maisela NS Kgoshi Phahlamohlaka KP Kgoshi Nchabeleng MK Kgoshigadi Seroka TM Kgoshigadi Maisela RM Kgoshigadi Nchabeleng M
Grading of local authority	2
Municipal Manager	Matumane ND
Chief Financial Officer	Maredi MF
Registered office	Stand No. 1 Mashung Ga-Nkoana Apel
Business address	Stand No. 1 Mashung Ga-Nkoana Apel
Postal address	PO Box 818 Ga-Nkoana Apel 739

Bankers	Standard Bank of South Africa Limited
Attorneys	Rachoene and Associates Sydwel Rachoene

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain accounting records and is responsible for the content and integrity of the financial statements and related financial adequate information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at of its operations and cash flows for the period then ended. The external auditors are engaged to express the end of the financial year and the results an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. Although the are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 7 September 2015 and were signed on its behalf by:

Accounting Officer
Designation

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 7 times per annum as per its approved terms of reference. During the current year 7 of meetings were held.

Name of member	Number of meetings attended
1. Adv. Thubakgale L (Chairperson)	6/7
2. Mr Semenya C.C (Audit Member)	6/7
3. Mr Mangokwana A (Audit Member)	3/7
4. Mr Maeyane A.K (Audit Member)	4/7
5. Ms Makhongela M (Audit Member)	5/7

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(b) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and ;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report on the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

BD

Chairperson of the Audit Committee

Date: 11/09/2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	6	696,971	219,229
Receivables from exchange transactions	7	1,310,365	866,295
Receivables from non-exchange transactions	8	781,100	2,076,460
VAT receivable	9	1,712,430	867,407
Consumer debtors	10	1,099,863	709,418
Cash and cash equivalents	11	4,356,889	15,434,539
		9,957,618	20,173,348
Non-Current Assets			
Investment property			
Property, plant and equipment	3	106,160,957	92,647,942
Intangible assets	5	16,755	-
Heritage assets	4	105,000	105,000
		106,282,712	92,752,942
Total Assets		116,240,331	112,926,290
Liabilities			
Current Liabilities			
Finance lease obligation	12	178,777	174,964
Payables from exchange transactions	16	5,055,814	5,930,335
Unspent conditional grants and receipts	14	74	9,289,173
Provisions	15	4,310,920	2,326,873
		9,545,585	17,721,345
Non-Current Liabilities			
Employee benefit obligation	13	846,564	497,020
Finance lease obligation	12	115,840	294,616
Total Liabilities		962,404	791,636
Total liabilities		10,507,989	18,512,981
Net Assets		105,732,342	94,413,309
Accumulated surplus		105,732,342	94,413,309

Statement of Financial Performance

Figures in Rand	Notes	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	3,928,542	3,884,896
Rental of facilities and equipment		91,322	146,610
Income from agency services		354,685	321,488
Licences and permits		1,797,759	1,765,589
Other income	18	620,122	352,179
Interest received - investment	19	1,506,611	1,193,843
Total revenue from exchange transactions		8,299,042	7,664,605
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	9,246,397	5,866,793
Property rates - penalties imposed	20	136,860	316,630
Transfer revenue			
Government grants & subsidies	21	87,244,819	74,504,100
Public contributions and donations		759,835	187,317
Fines		2,385,100	1,555,443
Total revenue from non-exchange transactions		99,773,010	82,430,282
Total revenue		108,072,052	90,094,887
Expenditure			
Employee related cost	26	(35,700,634)	(30,344,269)
Remuneration of councillors	27	(8,329,057)	(8,106,371)
Depreciation and amortisation		(5,509,117)	(4,968,826)
Impairment loss	23	(14,883)	(1,375,762)
Finance costs	24	(34,450)	(16,758)
Debt impairment	22	(13,432,738)	(11,204,502)
Repairs and maintenance		(1,233,776)	(671,167)
Grants and subsidies paid	25	(2,389,848)	(2,627,452)
General expenses	23	(30,108,539)	(28,847,708)
Total expenditure		(96,753,043)	(88,162,816)
Operating surplus		11,319,010	1,932,071
Fair value adjustments		0	
Surplus for the year		11,319,010	1,932,071

Statement of Changes in Net Assets

Figures in Rand	Note	Accumulated Surplus/(Deficit)	Total: Net Assets
Balance at 30 June 2013		**101,673,481**	**101,673,481**
Prior period error adjustments		(9,804,641)	(9,804,641)
Restated balance 30 June 2013		**91,868,840**	**91,868,840**
Surplus for the year		12,217,210	12,217,210
Balance at 30 June 2014		**104,086,049**	**104,086,049**
Prior period error adjustments	37	(9,672,740)	(9,672,740)
Restated balance 30 June 2014		**94,413,309**	**94,413,309**
Surplus for the year		11,319,009	11,319,009
Balance at 30 June 2015		**105,732,342**	**105,732,342**

Cash flow statement

Figures in Rand	Notes	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Rates and taxes		1,925,025	260,507
Sale of goods and services		1,437,252	1,252,006
Grants		78,715,555	76,594,025
Interest income		1,506,611	1,193,843
Other receipts		974,807	673,666
Fines		652,970	471,887
Payments			
Employee and councillor related costs		(41,696,100)	(36,135,409)
Suppliers		(28,571,509)	(33,561,713)
Finance costs		(34,450)	(16,758)
Net cash flows from operating activities	36	**14,910,162**	**10,732,055**
Cash flows from investing activities			
Purchase of property plant and equipment		(25,795,573)	(11,168,004)
Purchases of intangible assets		(17,275)	-
Cash flows from financing activities			
Finance lease payments		(174,964)	(112,091)
Net increase/(decrease) in cash and cash equivalents		**(11,077,649)**	**(548,040)**
Cash and cash equivalents at the beginning of the year		15,434,538.85	15,982,579.00
Cash and cash equivalents at the end of the year		4,356,889.44	15,434,538.85

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustment	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance	Expalanation of variance between actual and budgeted
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Service charges	3,607,000	-	3,507,000	3,928,542	321,542	9%	
Rental of facilities and equipment	271,000	-	271,000	91,322	-179,677.65	66%	There are challenges is some of the lessee in paying tł rental especially for Hewkers stall and Atok
Interest received trading	74,158	-	74,158	-	-74,158.00	100%	There were no actual receipt occurred during the current year
Income from agency services	550,000	-	550,000	354,685	-195,315.17	36%	Collection by the Municipality was below budget. The Municipality over budgted on licences and parmits
Licences and permits	2,000,000	-	2,000,000	1,797,759	-202,240.66	10	
Other income - (rollup)	4,005,000	63,000.00	4,088,000	520,122	-3,447,877.61	85%	There were under budgted provision made on other income, thus also caused by the introduction and establishment of revenue source in the form of Traffic Escort Fees
Interest received - investment	1,550,000	-	1,550,000	1,506,611	-43,389.09		
Total revenue from exchange transations	**12,057,158**	**-**	**12,057,158**	**8,299,042**	**-3,821,116.27**		
Revenue from non-exchange transactions							
Taxation revenue							
Property rates	9,000,000	-	9,000,000	9,246,397	246,397	3%	
Property rates - penalties imposed	22,472	-	22,472	136,860	114,388	509%	There were under budget provision made on property rates - penalities
Transfer revenue							
Government grants & subsidies	68,362,000	911,000.00	69,273,000	87,244,819	17,971,819	26%	The Municipality under budgted on government grants and subsidies

Statement of Comparison of Budget and Actual Amounts
Budget on Cash Basis

Figures in Rand	Approved budget	Adjustment	Final budget	Actual amounts on comperable basis	Difference between final budget and actual	Variance	Explanation of verlance between actuel and budgeted amount
Transfer revenue							
Government grants & subsidies	68 362 000	911 000	69 273 000	87 244 819	17 971 819	26%	The municipality under budgeted on government grants and subsidies
Public contributions and donations	-	-	-	759 835	759 835	100%	There were no budget provided for public contribution during the current year under review.
Fines	550 000	-	550 000	2 392 000	1 842 000	335%	The traffic fines were under budgeted for in the current year as result of the based used that were also understated in the prior year.
Total revenue from non exchange transactions	**77 934 472**	-	**77 934 472**	**99 779 910**	**20 573 654**		
Total revenue	**89 991 630**	-	**89 991 630**	**108 078 952**	**16 752 537**		
Expenditure							
Employee related cost	(34 683 000)	(846 000)	(35 529 000)	(35 700 634)	(171 634)	0%	
Remuneration of councillors	(8 102 000)	-	(8 102 000)	(8 329 057)	(227 057)	3%	
Depreciation and emortisation	(4 000 000)	-	(4 000 000)	(5 502 882)	(1 502 882)	38%	The Municipality entered into a new lease agreement with Neshua for leasing of photocopy end glue machine; thus resulted into variances on the budget finance charges thet was based on the old lease machine.
Impairment loss	-	-		(14 883)	(14 883)	100%	Impairment los was not budgeted for in the current year
Finance costs	(93 000)	-	(93 000)	(34 450)	58 550	-63%	The Municipality entered into e new lease agreement with Nashua for leasing of photocopy and glue machine; thus resulted into variances on the budget finance charges that was based on the old lease machine.

Public contributions and donations	-	-	-	759,835	759,835	100%	There were no budget provided for public contribution during the current year under review
Fines	550,000	-	550,000	2,392,000	1,842,000	335%	The traffic fines were under budgeted for in the current year as result of the based used that were also understated in the prior year.
Total revenue from non exchange transations	**77,934,472**	**-**	**77,934,472**	**99,779,910**	**20,934,438**		
Total revenue	**89,991,630**	**-**	**89,991,630**	**108,078,952**	**17,113,322**		
Expenditure							
Employee related cost	(34,683,000)	-846,000	(35,529,000)	(35,700,634)	171,634	0%	
Remuneration of councillors	(8,102,000)	-	(6,102,000)	(8,329,057)	227,057	3%	
Depreciation and amortisation	(4,000,000)	-	(4,000,000)	(5,502,882)	1,502,882	38%	
Impairment loss		-		(14,883)	14,663	100%	Impairment loss was not budget for in the current year
Finance costs	(93,000)	-	(93,000)	(34,450)	(58,550)	63%	The Municipality entered into a new lease agreement with Nashua for leasing of photocopy and glue machine;thus resulted into variances on the budget finance charges that was based on the old lease machine
Debt Impairment	(10,352,000)	-	(10,352,000)	(13,432,736)	3,080,736	30%	In therm of ICRAP that require individual assessment of debtor to determine recoverability rate as compared to the provision budgeted for that was done
Repairs and Maintenance	(1,705,125)	-	(1,705,125)	(1,233,775)	(471,349)		
Grants and Subsidy paid	(985,000)	(1,336,000)	(2,321,000)	(2,369,646)	66,846		
General expenses	(27,552,675)	-	(27,552,875)	(30,293,713)	2,740,636		
Total expenditure	**(07,473,000)**	**(2,162,000)**	**(09,655,000)**	**(96,931,982)**	**7,276,982**		
Operating surplus	**2,516,630**	**(2,162,000)**	**336,630**	**11,146,970**	**9,836,340**		
Fair value adjustments	-	0	-	62,146	-		
Surplus before taxation	**2,518,630**	**(2,182,000)**	**336,630**	**11,209,116**	**9,636,340**		
Actual amount on comparable basis as presented in the budget and actual comparive statement	2,518,630	-	336,630		9,836,340		

Appropriation Statement

Figures in Rand	Original budget	Budget adjustment (i.t.o. s28 and s31 of the MFMA)	Final adjustment budget	Shifting of funds (i.t.o. s31 of MFMA)	Virement (i.t.o council approved policy	Final budget	Actual outcome	Unauthorised Expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	9 022 472	-	9 622 472	-	-	8 979 972	9 383 257	-	403 285	104%	104%
Service charges	3 607 000	-	3 607 000	-	-	3 360 600	3 928 542	-	568 542	117%	109%
Investment revenue	1 550 000	-	1 556 000	-	-	1 550 000	1 508 811	-	(43 389)	97%	97%
Transfers recognised - Operational	68 362 000	911 000	69 273 000	-	-	68 211 520	68 526 046	-	314 526	100%	100%
Other own revenue	7 450 158	63 000	7 513 158	-	-	3 517 907	6 015 724	-	2 497 817	171%	81%
Total revenue (excluding capital transfers and contributions	**89 991 630**		**89 991 630**			**85 619 399**	**89 360 179**		**3 740 780**	**104%**	**99%**
Employee costs	(34 683 000)	(848 000)	(35 529 000)	-	-	(35 697 040)	(35 700 634)	-	(3 594)	100%	103%
Remuneration of councillors	(8 102 000)	-	(8 102 000)	-	-	(8 312 715)	(8 329 057)	-	(16 342)	100%	103%
Debt Impairment	(10 352 000)	-	(10 352 000)	-	-	(10 341 000)	(13 432 738)	-	(3 091 738)	130%	130%
Depreciation and asset impairment	(4 000 000)	-	(4 000 000)	-	-	(5 000 000)	(5 517 765)	-	(517 765)	110%	138%
Finance charges	(93 000)	-	(93 000)	-	-	(13 000)	(34 450)	-	(21 450)	265%	37%
Other expenditure	(30 243 000)	(1 336 000)	(31 579 000)	-	-	(30 476 796)	(33 917 337)	-	(3 440 541)	111%	112%
Total expenditure	**(87 473 000)**	**(2 182 600)**	**(89 655 006)**	-	-	**(92 276 551)**	**(96 931 982)**	-	**(4 655 431)**	**105%**	**111%**
Surplus/(Deficit)	**2 518 630**		**336 636**			**(6 657 152)**	**(7 571 803)**		**(914 651)**	**114%**	**-301%**

Notes to the Annual Financial Statements

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005. These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables or loans and receivables

The municipality assesses its loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

Inventory is carried at lower of cost or net realisable value. Management have made estimates of the selling price and direct costs to sell on certain inventory items. The write down is included in the inventory note

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the municipality is the current bid price. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Notes to the Annual Financial Statements

Accounting Policies

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in the provisions note.

Long service awards

The present value of the long service award obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of long service award obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligation. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.
Other key assumptions for the obligations are based on current market conditions. Additional information is disclosed in the long service award note

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

An impairment loss is recognised in surplus and deficit when there is objective evidence that a debtor is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Presentation of Currency

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

Notes to the Annual Financial Statements

Accounting Policies

1.3 Going concern assumption

In terms of the accounting standard GRAP 1 paragraphs 30 to 34 the annual financial statements are prepared on a going concern basis. The assumption is based on the fact that the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- Ø it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- Ø the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the menner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for e nominal cost, its cost is its fair value as at date of acquisition. Where an item of property, plant end equipment is acquired in exchange for a non-monetary esset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost).

If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare.parts and stand by equipment which are expected to be used for more than one period ere included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Notes to the Annual Financial Statements

Accounting Policies

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Property, plant and equipment is carried at cost less accumulated depreciation and any impaired costs.

The asset management policy contains the details of the components and their useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset

The gain or loss arising from the de-recognition of an item of Intangible assets is included in surplus or deficit when the items derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost at reporting date comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average method. The same cost formula is used for all inventories having a similar nature and use to the entity.
When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Unsold properties are at the lower cost and net realisable value. Direct cost are accumulated for each separately identifiable development. Cost also includes a portion of the overhead costs.

Notes to the Annual Financial Statements

Accounting Policies

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

De-recognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, (see the Standard of GRAP on Revenue from Transactions) transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- Ø cash;
- Ø a residual interest of another entity; or
- Ø a contractual right to:
  - § receive cash or another financial asset from another entity; or
  - § exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- Ø deliver cash or another financial asset to another entity; or
- Ø exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Notes to the Annual Financial Statements

Accounting Policies

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable ere financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the

A financial asset is past due when a counterparty has failed to make a payment when contractuelly due. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- Ø the entity designates at fair value at initial recognition; or
- Ø are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- Ø derivatives;
- Ø combined instruments that are designated at fair value;
- Ø instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class Category

Cash and cash equivalents - Financial asset measured at amortised cost

Trade and other receivables from non-exchange transactions - Financial asset measured at amortised cost

Trade end other receivables from exchange transactions - Financial asset measured at amortised cost

Long term receivables - Financial asset measured at amortised cost

Notes to the Annual Financial Statements

Accounting Policies

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class Category

Long term liabilities Financial liability measured at amortised cost

Trade and other payables Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.
The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value]. The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessionary loan that is:

- Ø a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- Ø non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Ø Financial instruments at fair value.
- Ø Financial Instruments at amortised cost.
- Ø Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Notes to the Annual Financial Statements

Accounting Policies

Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- Ø combined instrument that is required to be measured at fair value; or
- Ø an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value.

This requires a reclassification of the instrument from amortised cost or cost to fair value.
If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual Interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit. For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or
deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and un-collectability of financial assets

The entity essess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Notes to the Annual Financial Statements

Accounting Policies

De-recognition

Financial assets

.The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- Ø the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- Ø the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- Ø the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for de-recognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequetely for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.
If the transferred asset is part of a larger financial asset and the part transferred qualifies for de-recognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is surplus or deficit.

If a transfer does not result in de-recognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Notes to the Annual Financial Statements

Accounting Policies

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit. Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the entity does not offset the transferred asset and the associated liability.

1.7 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, and net of trade discounts.

Notes to the Annual Financial Statements

Accounting Policies

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- Ø the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- Ø the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- Ø the amount of revenue can be measured reliably;
- Ø it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- Ø the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- Ø the amount of revenue can be measured reliably;
- Ø it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- Ø the stage of completion of the transaction at the reporting date can be measured reliably; and
- Ø the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- Ø It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- Ø The amount of the revenue can be measured reliably.
- Ø Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.8 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Notes to the Annual Financial Statements

Accounting Policies

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not speoify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified. Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of e transferred asset by entities external to the reporting municipality.
Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Taxes

The municipality recognises an asset for taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.
The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.
Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality. When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Notes to the Annual Financial Statements

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, Including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.9 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.10 Provisions and contingencies

Provisions are recognised when:

- Ø the municipality has a present obligation as a result of a past event;
- Ø it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- Ø a reliable estimate can be made of the obligation.
- Ø

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Notes to the Annual Financial Statements

Accounting Policies

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised.
Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision. No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the
sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- Ø the amount that would be recognised as a provision; and
- Ø the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes.

1.11 Unauthorised expenditure

Unauthorised expenditure means:

- Ø overspending of a vote or a main division within a vote;
- Ø expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), The Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Comparative figures

Current year comparatives

Budgeted amounts have been included in the statement of comparison of budget and actual amounts for the current financial year only.

Notes to the Annual Financial Statements

Accounting Policies

Prior year comparatives

When presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.16 Intangible assets

An asset is identified as an intangible asset when it:

- Ø is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- Ø arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- Ø it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- Ø the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- Ø it is technically feasible to complete the asset so that it will be available for use or sale.
- Ø there is an intention to complete and use or sell it.
- Ø there is an ability to use or sell it.
- Ø it will generate probable future economic benefits.
- Ø there are available technical, financial and other resources to complete the development and to use or sell the asset.
- Ø the expenditure attributable to the asset during its development can be measured reliably.
- Ø Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end. Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, internally generated	3 - 5 years
Computer software, other	3 - 5 years

Intangible assets are derecognised:

- Ø on disposal; or
- Ø when no future economic benefits or service potential are expected from its use or disposal.

1.17 Non-current assets held for sale

Non-current assets are classified as "held for sale assets" if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is depreciated (or amortised) while it is classified as a "held for sale" asset.

Interest and other expenses attributable to the liabilities of the "held for sale assets" are recognised in surplus or deficit.

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1.18 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon. A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- Ø the period of time over which an asset is expected to be used by the municipality; or
- Ø (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired. The municipality essesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- Ø base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- Ø base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

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- Ø estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- Ø projections of cash inflows from the continuing use of the asset;
- Ø projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- Ø net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- Ø cash inflows or outflows from financing activities; and
- Ø income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- Ø the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- Ø the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified. The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined. An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

- Ø its fair value less costs to sell (if determinable);
- Ø its value in use (if determinable); and
- Ø zero.

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The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit. Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that noncash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a re-valued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- Ø its recoverable amount (if determinable); and
- Ø the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.
- Ø The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

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Re-designation

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

1.19 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- Ø the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- Ø the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- Ø an entity's decision to terminate an employee's employment before the normal retirement date; or
- Ø an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service. Vested employee benefits are employee benefits that are not conditional on future employment. Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- Ø wages, salaries and social security contributions;
- Ø short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- Ø bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- Ø non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- Ø as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

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- Ø as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.
The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- Ø as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- Ø as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of each reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- Ø the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- Ø the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

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Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies. The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- Ø the present value of the defined benefit obligation at the reporting date;
- Ø minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- Ø plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- Ø the amount determined above; and
- Ø the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date. The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of

- Ø current service cost;
- Ø interest cost;
- Ø the expected return on any plan assets and on any reimbursement rights;
- Ø actuarial gains and losses;
- Ø past service cost;
- Ø the effect of any curtailments or settlements; and
- Ø the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- Ø the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- Ø the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the veluation are updated for any meterial transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on e curtailment or settlement comprises:

- Ø any resulting change in the present value of the defined benefit obligation; and
- Ø any resulting chenge in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current merket prices). When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset releting to one plan against a liability relating to another plan when the municipality has e legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net besis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutuelly compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled. The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligetions are measured on a basis that reflects:

- Ø estimated future salary increases;
- Ø the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- Ø estimeted future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- Ø those changes were enacted before the reporting date; or

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- Ø past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Pension Obligations: The municipality and its employees contribute to 3 different Pension Funds, Municipal Councillors Pension Fund, Municipal Employees Pension Fund and Municipal Gratuity Fund cater for the majority of the staff. Municipal Employees Pension Fund, and Municipal Gratuity Fund are defined benefit funds. The South African Local Authority Pension Fund is a defined contribution fund.

The schemes are funded through payments to financial consultant companies or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Ø Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Ø Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- Ø expenditures for the asset have been incurred;
- Ø borrowing costs have been incurred; and
- Ø activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.21. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised as an expense in the period in which they are incurred.

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1.22 Use of Estimates

The preperation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down Immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.25 Grants in aid

Fetakgomo municipality transfers money to individuals, institutions and organisations. When making these transfers, the municipality does not: Receive any goods or services directly in return, as would be expected in a purchase or sale transaction Expect to be repaid in future; or Expect a financial return, as would be expected from an investment. These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.26 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in

Useful life is either:

- Ø the period of time over which an asset is expected to be used by the municipality; or
- Ø (b) the number of production or similar units expected to be obtained from the asset by the municipality.

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Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired. The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.
The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potentiel of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a re-valued non-cash-generating asset is treated as a revaluation decrease. When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Re-designation

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

1.27 Presentation of Budget Information in the Financial Statements

The Municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- Ø the approved and final budget amounts;
- Ø the actual amounts on a comparable basis; and
- Ø by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- Ø are prepared using the same basis of accounting i.e. either cash or accrual;
- Ø include the same activities and entities;
- Ø use the same classification system; and
- Ø are prepared for the same period.

Notes to the Annual Financial Statements

Accounting Policies

1.28 Heritage Assets

Recognition of Assets

Heritage assets is recognised when it has a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset is further recognised as an asset only if:

- Ø it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- Ø the cost of fair value of the asset can be measured reliably.

Subsequent Measurement

Heritage asset is measured at its cost value and should it be acquired through a non-exchange transaction will it be measured at its fair value as at the date of acquisition and is carried at its cost less any accumulated impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus and is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit and is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Although a heritage asset is not depreciated is the heritage asset assess at each reporting date to disclose whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

The municipality will treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. Should any item of property, plant and equipment or an intangible asset carried at a re-valued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a re-valued amount, the entity applies the applicable Standard to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard relating to that asset. Transfer of investment property carried at fair value, or inventories to heritage assets at a re-valued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

De-recognition of Asset

The carrying amount of a heritage is de-recognised:

- Ø on disposal, or
- Ø when no future economic benefits or service potential are expected from its use or disposal.
- Ø The gain or loss arising from the de-recognition, of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Notes to the Annual Financial Statements

Accounting Policies

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Commitments

Items are classified as commitment where the municipality commits itself to future transactions that will normally results in the outflow of resources.Commitments are not recognised in the Statement of Financial Position as a liablilty, but are included in the disclosure notes in the following cases: -approved and contracted commitments; -where the expenditure has been approved and contract has been awarded at the reporting date; and -where disclosure is required by specific standard of GRAP.

1.31 Event after balance sheet date

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the municipal is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

Accounting Adjust financial statements for adjusting events - events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the municipal is not appropriate.

2. Standards, Amendments to Standards and Interpretations Issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

No	Title of standard	Impact on GRAP
GRAP 20	Related party disclosures	No material impact
GRAP 32	Service Concession Arrangement Grantor	No Material Impact
GRAP 108	Statutory Receivables	No impact
GRAP 109	Accounting by Principals and Agents	No impact

Effective date is not to be determined for the other standards by the minister

New GRAP standards effective for financial years beginning on or after 1 April 2015

Notes to the Annual Financial Statements

Accounting Policies

No	Title of standard	Impact on GRAP
GRAP 18	Segment Reporting	No material impact
GRAP 105	Transfer of Functions(Under common control)	No impact
GRAP 106	Transfer of Functions(Not under common control)	No impact
GRAP 107	Mergers	No impact

3. Property, plant and Equipment

	2015			2014		
	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	116,000	-	116,000	116,000	-	116,000
Buildings	76,276,538	(14,901,552)	61,374,987	60,007,409	(4,059,013)	55,948,396
Infrastructure	23,375,003	(733,689)	22,641,313	5,209,262	(165,470)	5,043,792
Other property, plant and equipment	17,924,135	(7,880,577)	10,043,557	11,832,438	(1,710,768)	10,121,870
Work in progress	11,985,101	-	11,985,101	21,418,084	-	21,418,084
	129,676,777	(23,515,818)	106,160,959	98,583,193	(5,935,251)	92,647,942

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Carrying value
Land	116,000	-	-	-	-	-	116,000
Buildings	55,948,396	581,251	(5,908,748)	13,989,141	(3,160,095)	-14,883.19	61,435,063
Infrastructure	5,043,792	-	-	17,862,787	(263,195)	-	22,643,384
Other property, plant and equipment	10,121,670	2,065,550	(452,501)	332,000	(2,085,282)	-	9,981,437
Work in progress	21,418,084	22,750,945	-	(32,183,928)	-	-	11,985,101
	92,647,942	25,397,746	(6,361,249)	-	(5,508,571)	(14,883)	106,160,984

The following properties which were classified as investment property (carried at fair value) were reclassified to property, plant and equipment:

1.Thusong services centre which is being leased out to various agencies in Atok.
2.64 hectors of land situated in Hoeraroep farmks 515 in Apel
A fair value adjustment of R62 146 was recognised in the statement of financial performance prior to reclassification

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment losss	Carrying value
Land	116,000	-	-	-	-	-	116,000
Buildings	56,924,948	1,257,047	-	2,069,753	(2,932,491)	(1,370,861)	55,948,396
Infrastructure	4,777,560	-	-	451,029	(184,798)	-	5,043,792
Other property, plant and equipment	9,618,333	2,307,605	-	52,170	(1,851,537)	(4,901)	10,121,670
Work in progress	9,608,594	14,182,443	-	(2,572,953)	-	-	21,418,084
	81,245,435	**17,747,095**	-	-	(4,968,826)	(1,375,762)	**92,647,942**

Notes to the Annual Financial Statements

Figures in Rand

4. Heritage assets

	2015			2014		
	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Mayoral chain	105 000	-	105 000	105 000	-	105 000
	105 000	-	105 000	105 000	-	105 000

5.Intangible assets

	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost /Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Software	17 275	(520)	16 755	-	-	-
	17 275	(520)	16 755	-	-	-

Reconciliation of intangible assets 2015

	Opening balance	Additions	Amortisation	Carrying value
Software	-	17 275	(520)	16 755
	-	17 276	(520)	16 755

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Inventories

Refuse bins	296,300	182,725
Consumable stores	400,671	36,504
	696,971	219,229

During the current year 2 630 refuse bins on hand were written down to their net realisable value as they were sold at prices that are below their costs. An amount of R342 079 was charged to the statement of financial performance. Inventory is now carried at its net realisable value

Inventory write downs

Refuse bins	638,380	182,725
Write down to net realisable value	(342,080)	-
Carrying value of inventory	296,300	182,725

7.Receivable from exchange transactions

Debtors: council facilities	291,871	135,801
Secured deposit	1,018,494	730,494
	1,310,365	866,295

Included in receivables from exchange transactions:		
Debtors hawkers	12,750	-
Less: allowance for impairment	(7,759)	-
Other council facilities	286,880	135,801
Secured deposit	1,018,494	
	1,310,365	135,801

8.Receivable from non exchange transactions

Fines	4,039,104	2,282,287
Provision for fines	(3,258,003)	-230,514
Receivable Bokoni mine	-	24,687
	781,100	2,076,460

9.VAT Receivable

VAT	1,712,430	867,407

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

10.Consumer debtors

Gross balances		
Rates	16 599 299	10 180 359
Refuse	13 077 864	8 955 053
	29 677 153	**19 135 412**
Less: Allowance for impairment		
Rates	(15 918 558)	(9 946 851)
Refuse	(12 658 742)	(8 479 143)
	(28 577 300)	**(18 425 995)**
Net balance		
Rates	680 741	233 507
Refuse	419 122	475 910
	1 099 863	**709 418**

Rates

0-60 days	1 503 548	1 337 949
61-90 days	725 268	642 433
91-120 days	745 844	638 677
121+ days	13 624 638	7 561 300
Less allowance for impairment	(15 918 558)	(9 948 851)
	680 741	**233 508**

Refuse

0-60 days	1 131 401	1 137 832
61-90 days	357 956	355 548
91-120 days	357 914	353 178
121+ days	11 230 593	7 108 495
Less allowance for impairment	(12 658 742)	(8 479 143)
	419 122	**475 910**

Included in debtors for refuse removal for current and prior year, 0 - 60 days ageing bracket, are amounts which were not affected by the billing. The debtors are billed based on weight of their refuse

Reconciliation of allowance for impairment:

Balance at the beginning of the year	(18 425 994)	(7 221 492)
Contribution to allowance for impairment	(10 151 306)	(11 204 502)
Balance at the end of the year	**(28 577 300)**	**(18 425 994)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Cash and cash equivalents

Cash and cash equivalents consist of:

	2015	2014
Cash on hand	250	250
Bank balances	4 356 640	2 645 845
Short term investments	-	12 788 444
	4 356 889	**15 434 539**

The municipality had the following bank accounts:

	Bank statement balances			Cash book balances		
Account description and number	**30 June 2015**	**30 June 2014**	**30 June 2013**	**30 June 2015**	**30 June 2014**	**30 June 2013**
Standard bank current account: 030164532000	2 728 334	167 067	660 169	2 475 714	2 645 845	-
Standard bank call account: 418909202001	1 880 926	2 860 924	85 421	1 880 926	12 788 444	(156 037)
Nedbank call account: 7881071311	-	12 842 862	16 138 548	-	-	16 138 548
	4 609 259	**15 870 853**	**16 884 138**	**4 356 640**	**15 434 289**	**15 982 511**

12. Finance lease

	2015	2014
Minimum lease payments due		
within 1 year	197 658	209 414
in second to fifth year	119 441	317 098
	317 099	**526 512**
Less: Future Finance charges	(22 482)	(56 932)
Present Value of Minimum lease payments	**294 616**	**469 580**

	2015	2014
Present Value of Minimum lease payments due		
within 1 year	178 777	174 964
in second to fifth year	115 840	294 616
	294 616	**469 580**

	2015	2014
Non current liabilities	115 840	294 616
Current Liabilities	178 777	174 964
	294 616	**469 580**

The municipality leases photocopier machines from Nashua. The effective interest rate on the lease is 8.74%(government bond rate) and is repayable in 36 equal instalments of R 16 382.41 monthly, the first was paid in February 2014 and the last instalment is payable during January 2017.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

13. Long service awards

Movement in the net liability recognised on the statement of financial position:

	2015	2014
Opening balance	497,020	412,897
Current service costs	137,746	31,892
Interest costs	49,315	102,748
Curtailment	-	(36,803)
Expected benefit vesting	(15,866)	-
Actuarial loss/(gain)	178,349	(13,714)
Closing balance	846,564	497,020

Net expense recognised in the statement of financial performance:

	2015	2014
Current service costs	137,748	31,892
Interest costs	49,315	102,748
Curtailment	-	(38,803)
Expected benefit vesting	(15,866)	
Actuarial loss/(gain)	178,349	(13,714)
Total included in employee related costs	349,544	84,123

Key assumptions used:

Assumption used as at reporting date (values qouted per annum):

	2015	2014
Discount rate	8,53%	8,74%
Salary inflation	7,36%	7,36%
Real rate	1,08%	1,29%

14. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

	2015	2014
Municipal Infrastructure Grant (MIG)	0	9,289,173
Munipal Finance Management Grant	74	-
	74	9,289,173

Movement during the year

	2015	2014
Balance at beginning of the year	9,289,173	7,386,565
Additions during the year	11,249,000	19,835,000
Income recognition during the year	-20,538,099	-17,932,392
	74	9,289,173

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

15. Provisions (Staff leave)

Reconciliation of provisions

Opening	2 326 873	1 940 626
Additions	1 984 047	386 247
Closing balance	4 310 920	2 326 873

16. Payables from exchange transactions

Payables from exchange transactions consist of:

Trade payables	2 558 705	2 124 827
Income received in advance	17 042	3 065
Retentions	1 755 515	3 230 026
Deposits	18 158	13 904
Accrued bonus	616 382	221 905
Accruals	90 012	336 607
Other payables	-	-
	5 055 814	5 930 335

17. Service charges

Service charges consists of:

Refuse removal	3 928 542	3 884 896

18. Other income

Included in other income are the following:

Land use charges	10 697	13 309
Traffic escort	2 193	-
Proof of residence	70 636	22
Tender documents	266 394	219 455
Sundry income	250 750	101 002
Staff parking	19 453	18 390
	620 122	352 179

19. Investment income

Interest received consists of:

Interest received on investment	754 676	1 018 684
Interest on the call account	751 935	175 159
	1 506 611	1 193 843

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Property rates

Rates received

	2015	2014
Residential	9 492 836	7 295 999
Less: Rebate	(246 439)	(1 429 207)
	9 246 397	5 866 793
Interest levied on property rates	136 860	316 630
	9 383 257	6 183 422

Valuations

	2015	2014
Agricultural	53 077 500	53 020 000
Educational	115 400 000	115 400 000
Business	163 904 000	162 370 000
Industrial	2 560 000	2 560 000
Mining	13 720 000	13 720 000
Residential	70 070 840	66 640 000
Municipal	23 083 750	10 600 000
State owned	108 950 000	108 950 000
Public service organisation	20 030 000	20 030 000
PBO and place of worship	3 610 000	3 360 000
	574 406 090	556 650 000

Valuations on land and buildings are performed every four (4) years. A supplementary valuation was performed in June 2015, taking into account changes in individual property values due to alterations and subdivisions

21. Government grants and subsidies

	2015	2014
Operational grants		
Equitable share	63 620 000	52 946 000
Finance management grant	1 799 926	1 650 000
Municipal systems improvement grant	934 000	890 000
LG seta grant	50 720	85 708
Municipal infrastructure grant	1 069 400	726 548
EPWP incentive grant	1 052 000	1 000 000
	68 526 046	57 298 256
Capital grants		
Municipal infrastructure grant	18 718 773	17 205 844
	87 244 819	74 504 100

Figures in Rand	2015	2014

21. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of the year	9 289 173	7 386 565
Current year receipts	11 249 000	19 835 000
Conditions met - transferred to revenue	(19 788 173)	(17 932 392)
Surrendered to Treasury	(750 000)	-
Balance unspent at the end of the year	0	9 289 173

This grant was used to construct projects approved by Cooperative Governance and Traditional Affairs. conditions of the grant were met and no funds were unspent at year end. Prior year unspent amount was rolled over to the current year.

National Treasury stopped MIG Allocation amounting to R 10,139,000 and R 750, 000 was surrendered back to the National Treasury.

Amongst key reason for stoppage of MIG allocation was the factor in the external environment i.e. Enormous attention in community protests and Memoranda affected projects implementation , monitoring and evaluation in negative light. This was especially so in the first quarter of the financial year 2014/2015.

Municipal systems improvement grant

Current year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
Balance unspent at the end of the year	-	-

This grant was used to build in-house capacity to perform their functions and stabilize institutional and governance systems.

LG Seta grant

Current year receipts	50 720	85 708
Recognised in revenue	(50 720)	(85 708)
Balance unspent at the end of the year	-	-

The grant was utilised for training and development of municipal staff.

Finance Management Grant

Current year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 799 926)	(1 650 000)
Balance unspent at the end of the year	74	-

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003.

EPWP Grant

Current year receipts	1 052 000	1 000 000
Conditions met - transferred to revenue	(1 052 000)	(1 000 000)
Balance unspent at the end of the year	-	-

The grant was used to pay wages for EPWP employees.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Debt impairment

Contributions to allowance for debt impairment	13 432 738	11 204 502

23. Impairment of assets

Impairments	14 883	1 375 762

Carports were impaired in the current financial year due to poor condition, the recoverable amount of the carports was based on fair value less cost to sell. The main class of assets affected by this Impairment is land and buildings

24. Finance costs

Finance lease	34 450	16 758

25. Grants and subsidies paid

Grants and subsidies paid consists of:

Grants paid to Eskom: Free basic electricity	1 432 681	1 460 513
Local Economic Support Programme	957 167	1 166 940
	2 389 848	2 627 452

26. Employee related costs

Acting allowance	18 743	40 514
Bonus	1 187 467	793 478
Cellphone allowance	259 500	247 991
Contribution to special leave	2 278 162	761 012
Group life insurance	218 429	180 561
Housing benefits and allowances	39 446	34 416
Long service awards	349 544	84 123
Medical aid	1 968 979	1 606 151
Overtime	298 290	233 880
Pay As You Earn (PAYE)	3 142 936	2 769 797
Pension fund	3 994 330	3 634 509
Performance bonus	-	144 575
Salaries	13 138 624	11 499 297
SALGB	12 068	11 074
Skills Development Levy (SDL)	200 897	178 559
Standby allowance	187 448	139 363
Travel allowance	3 647 872	3 007 957
Travel and subsistence allowance	752 236	697 926
Unemployment Insurance Fund (UIF)	240 851	232 254
	31 935 819	26 297 437

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Employee related costs (continued)

Remuneration of Municipal manager - Lebepe ME

Mr Lebepe ME resigned as a municipal manager in July 2013

Salary	-	193 190
Car allowance	-	8 167
Contributions to UIF, Medical and Pension Funds	-	128 236
Cellphone allowance	-	800
Subsistence allowance	-	6 878
	-	337 271

Remuneration of Municipal manager - Matumane ND

Mr Matumane ND was appointed as a municipal manager in December 2013

Salary	603 626	338 984
Car allowance	9 800	5 716
Contributions to UIF, Medical and Pension Funds	508 440	299 487
Cellphone allowance	9 600	5 600
Subsistence allowance	29 092	7 279
	1 160 558	657 066

Remuneration of Chief Financial Officer: Makgata MJ

Mr Makgata MJ resigned as CFO in January 2014 and Mr. Hlakudi LS acted as Chief Financial Officer for the following periods: February 2014 to April 2014

Salary	-	254 275
Car allowance	-	78 908
Contributions to UIF, Medical and Pension Funds	-	273 794
Cellphone allowance	-	4 900
Subsistence allowance	-	4 564
	-	616 441

Remuneration of Chief Financial Officer : Maredi MF

Maredi MF was appointed as CFO in May 2014.

Salary	431 296	44 443
Car allowance	144 000	11 719
Contributions to UIF, Medical and Pension Funds	410 609	90 371
Cellphone allowance	8 400	1 400
Subsistence allowance	14 955	-
	1 009 260	147 934

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Employee related costs (continued)

Remuneration of Director: Technical Services Morokolo MP

Salary	73 811	353 112
Car allowance	27 878	167 263
Contributions to UIF, Medical and Pension Funds	95 474	352 545
Cellphone allowance	1 400	8 400
Subsistence allowance	-	23 725
	198 562	905 045

The technical services director resigned in November 2014

Remuneration of Director Corporate Services: Phasha MI

Salary	568 590	517 285
Car allowance	75 411	75 411
Contributions to UIF, Medical and Pension Funds	314 448	306 440
Cellphone allowance	8 400	8 400
Subsistence allowance	4 502	-
Acting allowance		4 934
	971 351	912 470

Mr Phasha acted as municipal manager in November 2013.

Remuneration of Director Development Planning: Matumane ND

Salary	-	207 202
Car allowance	-	6 025
Contributions to UIF, Medical and Pension Funds	-	212 671
Cellphone allowance	-	3 500
Subsistence allowance	-	15 782
Acting allowance	-	25 426
	-	470 606

Mr. Matumane ND acted as municipal manager for the following periods: July 2013, August 2013 and October 2013. Ms Mkabela SM acted as director: Development planning for the period July 2013 to October 2013. Ms. Mengwai M acted then acted from December 2013 to May 2014

Remuneration of Director Development Planning: Peu L

Salary	202 885	-
Car allowance	85 749	-
Contributions to UIF, Medical and Pension Funds	123 005	-
Cellphone allowance	5 600	-
Subsistence allowance	7 847	-
	425 085	-

Ms Peu L was appointed as Director for development planning in November 2014

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Remuneration of councillors

Mayor	715 097	638 000
Speaker	594 800	574 845
Chief whip	542 496	537 553
Executive committee	1 957 700	1 839 912
Councillors	4 518 964	4 516 061
	8 329 057	**8 106 371**

Remuneration of Mayor

Basic salary	536 493	478 112
Car allowance	136 416	136 416
Cellphone allowance	20 868	19 872
SDL	6 135	-
Subsistence allowance	11 583	
Data	3 600	3 600
	715 095	**638 000**

The Mayor, Speaker , Chief whip and two executive committee were full-time. Mayor, Speaker and Chief whip are provided with an office and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle and driver for official duties.

Remuneration of Speaker

Basic salary	429 077	411 917
Car allowance	109 133	109 133
Cellphone allowance	20 868	26 524
SDL	4 957	5 007
Subsistence allowance	27 165	18 664
Data	3 600	3 600
	594 800	**574 845**

Remuneration of Chief Whip

Basic salary	463 647	373 700
Car allowance	40 925	102 312
Cellphone allowance	20 868	19 872
SDL	4 775	4 521
Subsistence allowance	8 680	33 548
Data	3 600	3 600
	542 495	**537 553**

Remuneration of Executive Committee

Basic salary	1 575 364	1 467 700
Car allowance	215 867	228 659
Cellphone allowance	83 472	74 504
SDL	16 932	16 334
Subsistence allowance	51 665	38 315
Data	14 400	14 400
	1 957 700	**1 839 912**

Notes to the Annual Financial Statements

Figures in Rand

27. Remuneration of councillors (continued)

2015

Name of councillor	Basic salary	Car allowance	Cellphone allowance	Data	Subsistence allowance	Company contributions
Lesufi MJ	218 089	40925	20868	3 600	11 243	2 534
Phasa Mj	160 904	40925	20868	3 600	3 512	2 012
Maisela NS	160 904	40925	20868	3 600	3 715	2 012
Moswane MW	218 089	40925	20868	3 600	20 344	2 534
Manala RE	160 904	40925	20868	3 600	-	2 012
Kupa MT	218 089	40925	20868	3 600	13 958	2 534
Maboa S	160 904	40925	20868	3 600	454	2 012
Mosoana DM	134 087	34104	17390	3 000	-	1 677
Maesela MG	160 904	40925	20868	3 600	-	2 012
Moifo HK	160 904	40925	20868	3 600	-	2 012
Mawela TV	160 904	40925	20868	3 600	4 715	2 012
Mabotha MC	160 904	40925	20868	3 600	1 617	2 012
Mathipa MH	160 904	40925	20868	3 600	1 199	2 012
Marote ET	218 089	40925	20868	3 600	5 838	-
Mashabela MN	218 089	40925	20868	3 600	25 712	2 534
Diphofa DK	218 089	40925	20868	3 600	8 869	2 534
Makola MM	160 904	40925	20868	3 600	2 595	1 996
Maisela RP	160 904	40925	20868	3 600	-	2 008
	3 212 565	729 829	372 145	64 200	103 771	36 459

2014

Name of councillor	Basic salary	Car allowance	Cellphone allowance	Data	Subsistence allowance	Company contributions
Lesufi MJ	208 412	40925	14888	3 600	22 588	2 450
Phasa Mj	154 464	40925	14888	3 600	7 149	1 949
Maisela NS	154 464	40925	14888	3 600	10 436	1 949
Moswane MW	208 412	40925	14888	3 600	14 066	2 450
Manala RE	154 464	40925	14888	3 600	-	1 949
Kupa MT	208 412	40925	14888	3 600	13 940	2 450
Maboa S	154 464	40925	14888	3 600	9 600	1 949
Mosoana DM	154 464	40925	14888	3 600	-	1 949
Maesela MG	154 464	40925	14888	3 600	-	1 949
Phala TN	154 464	40925	14888	3 600	12 657	1 949
Moifo HK	154 464	40925	14888	3 600	-	1 949
Mawela TV	164 464	40925	14888	3 600	13 458	1 949
Phala MD	208 412	40925	14888	3 600	12 862	2 450
Mabotha MC	154 464	40925	14888	3 600	12 045	1 949
Mathipa MH	222 969	40925	14888	3 600	-	2 635
Marote ET	208 412	40925	14888	3 600	15 258	-
Mashabela MN	217 263	40925	14888	3 500	-	2 538
Diphofa DK	208 412	40925	14888	3 600	20 410	2 450
	3 245 344	736 650	257 984	64 800	164 469	36 913

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. General expenses

	2015	2014
Advertising	232,019	292,720
Auditors remuneration	1,823,235	1,336,444
Bank charges	110,418	106,061
Bursary	317,972	172,467
Cleaning service	2,353,170	1,538,753
Computer expenses	763,633	1,079,634
Consulting fees	1,625,725	1,407,516
Council governance and function	407,748	473,375
Electricity	2,193,799	1,149,444
Entertainment	36,806	51,626
FMG expenditure	1,214,879	725,674
Fuel and oil	856,182	808,380
Insurance	303,196	320,589
IT expenses	152,437	435,402
Landfill site expensed	546,392	5,038,777
Magazines, books and periodicals	25,635	38,858
Other expenditure	1,387,999	4,172,226
Postage and courier	-	1,069
Printing and stationery	530,607	728,697
Promotions	455,903	403,308
Rental of office equipment	87,638	121,188
Security	3,048,516	3,069,680
Subscription and membership	1,009,809	454,783
Telephone and fax	427,662	493,683
Training	590,777	624,052
Travel-local	1,025,670	1,209,728
Ward committee stipends	1,680,481	1,701,222
Workmens compensation	-	480,243
Debt collection	65,611	347,544
Loss on disposal of assets	6,759,101	-
Uniforms	75,522	64,564
	30,108,539	28,847,708

Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

	2015	2014
Current year subscription/fee	500,000	450,000
Amount paid - current year	-500,000	-450,000
	-	-

Material losses through criminal conduct

	2015	2014
Arising from current year	-	1,462,092
Amount paid - current year	-	-1,462,092
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

29. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription/fee	1 823 235	1 336 444
Amount paid - current year	(1 823 235)	(1 336 444)
	-	-

PAYE, UIF and SDL

Current year subscription/fee	5 904 440	5 753 046
Amount paid - current year	(5 904 440)	(5 753 046)
	-	-

VAT

VAT Receivable	1 712 430	667 407

Medical aid

Current year subscription/fee	1 968 979	1 606 151
Amount paid - current year	(1 968 979)	(1 606 151)
	-	-

Pension fund

Current year subscription/fee	6 038 156	5 232 005
Amount paid - current year	(6 038 156)	(5 232 005)
	-	-

Notes to the Annual Financial Statements

Figures in Rand

29. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrea consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2015

Tuesday, June 30, 2015

Name of councillor	Outstanding less than 90 days	Outstanding more than 90 days	Total
Marote ET			
Mabotha R	216	991	1,207
Phala MD	216	1,154	1,370
Phala TN	216	252	468
Moifo KH	216	424	640
Moswane NP	216	1,215	1,431
Kupa MT	216	1,478	1,694
Mashabela MN	761	3,432	4,193
	216	459	675
	2,273	9,405	11,678

Monday, June 30, 2014

Name of councillor	Outstanding less than 90 days	Outstanding more than 90 days	Total
Marote ET			
Mabotha R	211	319	530
Phala MD	213	481	694
Phala TN	208	189	397
Moifo KH	114	-	114
Moswane NP	213	541	754
Mosoane M	213	804	1,017
	213	666	879
	1,385	3,000	4,385

Deviations from supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the supply chain management policy needs to be approved by the municipal manager noted by council on a quarterly basis

The following deviations were condoned by council:

Description		
Deviation on goods and services less than R30 000	244,644	32,299
Deviation on goods and services between than R30 000 and R200 000	5,243,289	285,148
	5,487,933	317,447

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Commitments

Capital and current commitments

Capital		
Community assets	4,660,755	4,875,169
Infrastructure	5,143,843	3,216,629
	9,804,598	8,091,798

Operational and current commitments		
Commitment	5,472,613	2,664,322

The following projects form part of commitments:
Maintenance of the fixed asset register
Provision of security
Provision of two way radio system
Maintanance services for street light and high master lights
Rental of photocopier machine and glue binder
Construction hoeraroep internal and access roads
Designing and construction of cemetries
Designing of nchabeleng access bridge

31. Contingent liabilities

A dispute by Edward Baleni property consultants has been raised against the muncipality to the value of R 2 591 350 for failure to make payment for services rendered. The municipality denies the liability and counterclaim amount paid for services not rendered. The dispute is still in progress.

The Human communications (Pty) Ltd concluded an oral payment with the municipality and the municipality never effected the payment, the claim amounts R 6479 The matter is awaiting final trial date.

Phetlakgo construction claims retention money in respect of construction of Strykraal community hall which was witheld due to defects on the pumbling system, amounting to R189 316.

Nchabeleng Bernard claims an amount of R 250000 against the municipality for land. The matter is still in progess

Mathibe Bernedict instituted a claim against the municipality for failure to effect payment after desining the logo for the municipality, the claim is estimated to be R 1000 000. Council resolved that the logo be designed. The municipality is awaiting further action from the claimant.

MAMS architecture alleges that upon completion of the project the full pament was not effected. The claim against the municipality is to the value of R157 603. A letter of demand has been issued but legal proceedings have not yet been instituted.

Summary of claims lodged

	2015	2014
Edward Baleni Pty(Ltd) vs FTM	2,591,350	2,591,350
MAMS Architecture and planning vs FTM	157,604	-
Nchabeleng Bernard vs FTM	250,000	250,000
SALGBC (Wage curve)	-	-
Mathibe Benedict Mamogobo vs FTM	1,000,000	1,000,000
Human communications vs FTM	6,479	-
Phetlakgo construction vs FTM	189,316	-
	4,194,749	3,841,350

Notes to the Annual Financial Statements

Figures in Rand

31. Related parties

Relationships

	Matumane ND	Municipal Manager
Members of Senior Management	Maredi MF	Chief Financial Officer
	Phasa MI	Director: Corporate Services
	Peu LC	Director: Development Planning
Members of Municipal Council	Sefala RE	Mayor
	Mamphekgo KK	Speaker
	Phala TN	Chief Whip
	Lenstoane SA	EXCO Member: Development Planning
	Maisela PR	EXCO Member: Technical Services
	Phaladi RC	EXCO Member: Budget & Treasury
	Seroka KA	EXCO Member: Corporate & Community Development
	Diphofa KD	Chairperson: Technical Services and Portfolio Committee
	Kupa MT	Chairperson: Budget & Treasury
	Phala MD	Chairperson: Development Planning Portfolio Committee
	Mashabela MN	Chairperson: Community Services Portfolio Committee
	Mathipa MH	Chairperson: Remuneration Committee
	Marote ET	Chairperson of Chairperson
	Mabotha MC	Chairperson: Rules and Ethics Committee
	Moifo HK	
	Manala ER	
	Moswane MW	
	Mawela TV	
	Maesela MG	
	Maboa S	
	Makola MM	
	Lesufi MJ	
	Phasha MJ	
	Maisela NS	
	Kgoshi Phahlamohlaka KP	
	Kgoshi Nchabeleng MK	
	Kgoshigadi Seroka TM	
	Kgoshigadi Maisela TM	
	Kgoshigadi Nchabeleng M	

Apart from salaries and performance bonuses paid to the members of the senior management, management did not have any other related transaction identified. All the members of council were paid remuneration in line with the requirement of Public Office Bearers Act of 1998 and no loan was issued to either member of management or council. Other than related parties identified above, no other related parties existed as at the time of submission of annual financial statement. Salaries and remuneration of key management and councillors are disclosed in note 26 and 27.

Audit committee members were paid in terms of approved council guidelines.

32. In-kind benefits

The Mayor, Speaker , Chief whip and two executive committee were full-time. Mayor, Speaker and Chief whip are provided with an office and secretarial support at the cost of the Council.
The Mayor has use of a Council owned vehicle and driver for official duties.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

32. Risk management

Liquidity risk
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The m unicipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk
Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

33. Going concern
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34.Fruitless and wasteful expenditure

	2015	2014
Interest on late payment of supplier accounts	13,967	8,542
Penalty and interest for late payment to SARS	-	16,106
	13,967	24,648

35. Irregular expenditure

	2015	2014
Opening balance	17,423,297	6,276,825
Current year irregular expenditure		11,146,472
Condoned during current year irregular expenditure	-	-
	17,423,297	17,423,297

Analysis of expenditure awaiting condonation per age classification

	2015	2014
Current year	-	11,146,472
Prior years	17,423,297	6,276,825
	17,423,297	17,423,297

Details of irregular expenditure:

Non compliance with section 22(b)(I) of the municipal supply chain management regulations on extension of Fetakgomo high master lights - R10 613 215

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
36. Cash generated from operations		
Surplus for the year	11 209 116	1 932 071
Adjustments for:		
Depreciation	5 517 245	6 344 588
Amortisation	520	-
Loss on disposal of PPE	6 944 275	-
Contributions to provisions - current	1 984 047	2 275 494
Contribution to bad debt provision	13 186 554	11 208 793
Actuarial (gains)/losses	178 349	-
Fair value adjustments on investment property	(62 146)	-
Other non cash items	-	(580 172)
Interest costs: Defined benefit plan	49 315	39 737
Expected benefit vesting	(15 866)	-
Current services costs	137 746	-
Operating surplus before working capital changes:	39 129 156	21 220 511
Increase/(decrease) in inventories	(477 742)	(109 611)
(Increase)/Decrease in consumer debtors	(10 541.751)	(11 273 514)
(Increase)/Decrease in receivables- exchange transactions	(451 829)	(660 192)
(Increase)/Decrease in receivables-non exchange transactions	(1 739 030)	(1 083 556)
(Decrease)/Increase in conditional grants ad receipts	(9 289 099)	1 902 608
Increase/(Decrease) in payables from exchange transactions	(874 521)	451 227
(Increase)/Decrease in VAT Receivable	(845 023)	1 465 703
Cash generated from operations	**14 910 162**	**11 913 175**

Notes to the Annual Financial Statements

Figures in Rand

37. Prior period adjustments

During the current financial year the following prior period errors were corrected;

Nature of Error	Effect of the misstatement	Class affected	Amount of correction DR/(CR)
Payments for which an accrual was already created, were incorrectly processed against the expense vote and not the accrual vote	Payables were overstated	Current liabilities: Payables from exchange transactions	(18 296)
Accumulated depreciation was incorrectly calculated	Property plant and equipment was understated	Non current assets: Property, plant and Equipment	(16 133 437)
The carrying amount for land was incorrect	Property plant and equipment was overstated	Non current assets: Property, plant and Equipment	11 572 895
The carrying amount of the investment property was incorrectly calculated	Investment property was overstatement	Non current assets: Investment property	4 010 000
Provision for bad debts: Rates and refuse was incorrectly calculated	Overstatement of consumer debtors and understatement of provision for doubtful debts	Current assets: Consumer debtors	4 779 114
Trade creditors balance as per trial balance was incorrect and did not agree to the listing	Understatement of creditors	Current liabilities: Payables from exchange transactions	122 939
The inventory balance in the prior year was incorrect and was written down to its net realisable value	Inventory was overstated	Current assets: Inventories	114 871
Payments for bonus and other employee related expenses were incorrectly made against an expense vote instead of an accrual vote	Bonus provision was overstated	Current liabilities: Payables from exchange transactions	(369 690)

37. Prior period adjustments

During the current financial year the following prior period errors were corrected;

Nature of Error	Effect of the misstatement	Class affected	Amount of correction DR/(CR)
The carrying amount of property plant and equipment was incorrectly calculated in the prior year	Property plant and equipment was understated	Non current assets: Property, plant and Equipment	8 835 416
The finance lease was not carried at its present value in the prior year	Overstatement of finance lease obligation	Current liabilities: Finance lease obligation	(53 899)
The investment amount was incorrect	Overstatement of investments	Current assets: Cash and cash equivalents	54 418
The VAT receivable amount in the prior year was impaired due to uncertainty regarding its recoverability	Overstatement of VAT receivables	Current receivable: VAT receivable	1 818 917
Debtors balance for fines was understated	Understatement of consumer debtors	Current assets: Consumer debtors	(426 000)
The expenses incurred on the landfill site were incorrectly capitalised instead of being expensed	Overstatement of property, plant and equipment	Non current assets: Property, plant and Equipment	5 038 777
	Net effect on accumulated surplus		**19 346 025**

Adjustments made to 2013/2014 opening balances	9 060 886
Adjustments made to 2014/2015 opening balances	10 285 139

NET EFFECT OF THE CORRECTION

Assets	(19 664 971)
Liabilities	318 946
Net effect on the statement of financial position	**(19 346 025)**
Net effect on accumulated surplus	**19 346 025**

During the current financial year, the policy for provision for bad debts was changed. The provision was previously calculated based on the age of the debtor, and on a group basis. According to the new policy, the provision is based on payment pattern of each individual debtor. This previous policy was incorrect and was restated retrospectively. The restatement amount of R4 779 114 is included in prior period error note.

Notes to the Annual Financial Statements

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37. Prior period adjustments (continued)

Reclassification of items on the financial statements

The financial statements line items below were incorrectly mapped (classified incorrectly in the financial statements) in prior year , this mapping was corrected in the current year, and the following line items were affected:

Line item affected	Amount	Nature of misstatement
Statement of financial position		
Receivables from non exchange transactions	24 687	Receivables from non exchange transactions were overstated
Property, plant and equipment	4 465 928	Property, plant and equipment was overstated
Payables from exchange transactions	(2 242 961)	Payables from exchange transactions were overstated
Provisions	1 980 294	Provisions were understated
Accumulated surplus	(1 354 964)	Accumulated surplus was overstated
	2 872 984	
Statement of financial performance		
Public contributions and donations	(24 687)	Revenue from public contributions was understated
Debt Impairment	9 681	Debt impairment was understated
Employee related costs	(74 891)	Employee related costs were overstated
General expenses	(2 583 865)	General expenses were understated
Impairment loss	(199 228)	Impairment loss was overstated
	(2 872 984)	

a) Travel - local expenses included in the general expenses in the prior year was overstated by R 23,157.76 that relates to transport allowance for executive while transport allowance included in the employee related costs was understated by the same amount due to mapping error in the prior year.

b) Cellphone allowance included in the employee related costs in the prior year was overstated by R 19,261.90 while telephone & fax expenses was overstated included in the general expenses was understated by the same amount due to mapping error in the prior year.

c) Provision for accrued staff leave was included in the payable from exchange transactions in the prior year , however in the current year it was apportion and reflected as separate line item in the statement of financial position, under provisions

Further adjustments were made to 2013/2014 annual financial statements, retrospectively.
The following financial statement line items were affected:

Statement of financial position

Line item affected	Amount	Nature of misstatement
Consumer debtors	(18 320)	Consumer debtors was overstated due to billing error from the system
Receivables from exchange transactions	(96 050)	Receivables from exchange transactions was overstated
Receivables from non exchange transactions	24 687	Fines and penalties was understated
VAT Receivable	146 763	VAT receivable was understated
Investment property	655 949	Investment property was incorrectly valued
Property, plant and equipment	2 992 961	Accumulated depreciation was incorrectly calculated

Notes to the Annual Financial Statements

Figures in Rand

37. Prior period adjustments (continued)

Property, plant and equipment	255 110	Property plant and equipment was understated with the retention amount
Retentions	(255 110)	Retentions were understated
VAT Receivable	136 783	VAT receivable was understated
Property, plant and equipment	(136 783)	Assets were overstated with the VAT amount
Receivables from exchange transactions	730 494	Debtors were understated with the deposit amount that was not accounted for
Property, plant and equipment	(730 494)	Property plant and equipment was overstated
Payables from exchange transactions	(10 675)	Creditors were understated
Property, plant and equipment	10 675	Property, plan and equipment was understated
Payables from exchange transactions	383 866	The wage curve provision was reversed and restated retrospectively
Finance lease obligation	(55 122)	Finance lease obligation was understated
Accumulated surplus	(3 767 184)	Accumulated surplus was overstated
	267 550	

Statement of financial performance

Line item affected	Amount	Nature of misstatement
Property rates - Penalties imposed	536	Property rates was overstated due to billing error
Public contributions and donations	(24 687)	Donations were understated
Service charges	15 600	Property rates was overstated due to billing error
Depreciation and amortisation	(6 341)	Depreciation was incorrectly calculated and overstated
Employee related costs	(295 200)	Provision for wage curve was reversed
Finance costs	(6 092)	Finance costs on finance lease were overstated
General expenses	64 724	Expenses were understated
Grants and subsidies paid	(13 950)	Grants and subsidies paid were overstated
Repairs and maintenance	(2 140)	Repairs and maintenance was overstated
	(267 550)	

38. Events after reporting date

Non-adjusting event

After 30 June 2015, it became evident that Fetakgomo local municipality may be disestablished and amalgamated with Tubatse local municipality. This matter has not been finalised yet as at 30 June 2015.